FINAL BILL REPORT
ESSB 5321

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Synopsis as Enacted

Brief Description: Extending a local sales and use tax that is credited against the state sales and use tax.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Prentice, Kline, Pflug, Berkey, Shin, Hobbs, McAuliffe, Tom, Keiser, Jarrett and Kauffman).

Senate Committee on Ways & Means
House Committee on Finance

Background: In 2006 legislation was enacted allowing a city to impose a sales and use tax to provide, maintain, and operate municipal services within a newly annexed area. The tax is a credit against the state sales tax, so it is not an additional tax to a consumer. The tax is for cities that annex an area where the newly received revenues received from the annexed area do not offset the costs of providing services to the area.

There are several requirements that have to be met before a city may impose the tax. The city must:

- have a population less than 400,000;
- be located in a county with a population greater than 600,000;
- annex an area consistent with its comprehensive plan;
- commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and
- adopt a resolution or ordinance stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the annexed area on an annual basis.

The tax rate is 0.1 percent for each annexation area with a population between 10,000 and 20,000 and 0.2 percent for an annexation area over 20,000. The maximum cumulative tax rate a city can impose is 0.2 percent. The tax must be imposed at the beginning of a fiscal year and must continue for no more than ten years from the date it is first imposed.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenues may not exceed the difference of the amount the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services,

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the tax must be suspended for the remainder of the fiscal year.

Prior to March 1 of each year, the city must notify the Department of Revenue of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

Summary: The sales tax credit is extended for cities annexing qualifying areas until 2015. The requirement that a city have a population less than 400,000 in order to impose the sales and use tax is eliminated.

The rate of 0.85 percent is allowed for any city that has designated an area as a potential annexation area (PAA) if a city with a population greater than 400,000 has also designated the area as a PAA. In this case the maximum credit in a year must not exceed $5 million.

A city that has commenced annexation of enough areas prior to 2010, which would have allowed them to exceed the 0.2 percent limit, may receive an additional 0.1 percent sales tax credit beginning July 1, 2011.

Bellevue, may qualify for a sales tax credit of 0.1 percent if it annexes an area of over 4,000 persons.

If at the time of annexation, a house banked card room exists in the annexed area, the annexing city must allow the house banked card room to continue operations even if it has an ordinance that does not allow for such a business.

Votes on Final Passage:

Senate	41	6	
House	56	42	(House amended)
Senate			(Senate refused to concur)
House	54	41	(House amended)
Senate	37	11	(Senate concurred)

Effective: July 26, 2009